

**DEPARTMENT OF MENTAL HEALTH,
RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
REPORT ON CONTRACT COMPLIANCE
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001**

**DEPARTMENT OF ADMINISTRATION
BUREAU OF AUDITS
ONE CAPITOL HILL
PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUREAU OF AUDITS
One Capitol Hill
Providence, R.I. 02908-5889
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DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
REPORT ON CONTRACT COMPLIANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

EXECUTIVE SUMMARY

Our contract compliance engagement for the fiscal years ended June 30, 2002 and 2001 determined that the assets and liabilities of one of the Center's programs were not included in its fiscal records nor in its Independent Audit Reports as required by statute and departmental regulations.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

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Department of Administration
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June 9, 2004

Ms. Kathleen M. Spangler, Acting Director
Department of Mental Health, Retardation and Hospitals
Barry Hall - 1
14 Harrington Road
Cranston, RI 02920-3080

Dear Ms. Spangler:

We have completed an examination of the contracts between the Department of Mental Health, Retardation and Hospitals (MHRH) and East Bay Mental Health Center, Inc., for the fiscal years ended June 30, 2002 and 2001.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Section 35-7-4 of the General Laws requires the director of the department audited to respond in writing within sixty days to all recommendations made by the Bureau of Audits. A copy of your reply should also be sent directly to Ms. Beverly E. Najarian, Director, Department of Administration and to the Honorable Steven M. Constantino, Chairperson of the House Finance Committee and to the Honorable Stephen D. Alves, Chairperson of the Senate Finance Committee.

We wish to express our appreciation to the officials of the Department of MHRH and to the Director and staff members of the Center for their assistance, cooperation and courtesies extended to us during the course of this examination.

Sincerely,

Frank J. Collaro, Jr., CFE, CGFM
Acting Chief, Bureau of Audits

FJC:pp

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

INTRODUCTION

Objectives, Scope, and Methodology

The purpose of this examination was to determine compliance with your department's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers to the Matching Grant Contracts and with the terms and conditions contained within the Community Support, Residential and Acute Alternative Services Contracts as to:

- whether revenues were matchable or nonmatchable;
- total matchable revenue used as the basis for funding fiscal years 2004 and 2003;
- whether reported expenses were allowable and properly allocated;
- whether reported revenues were accurate, and
- any over or under funding on behalf of the Department of Mental Health, Retardation and Hospitals.

Our audit of the financial records included verification of revenues and expenses through testing procedures to the extent we deemed necessary in the circumstances. Occupancy requirements and resident contributions were examined for adherence to contract specifications. Client fund management was reviewed for conformance with applicable policies and guidelines.

Background

Section 40.1-8.5-6 of the Rhode Island General Laws authorizes the Director of the Department of Mental Health, Retardation and Hospitals (MHRH) to make grants to community mental health centers to provide mentally disabled adults services which shall include but not be limited to psychiatric, medical, nursing, psychological, social, rehabilitative and support services provided in the prevention, diagnosis, treatment and follow-up of mental disabilities, and in addition, may include those services designed to prevent mental disabilities or be of a consultative, informational or educational nature about mental disabilities. It is under this authorization that East Bay Mental Health Center, Inc., operates.

It is the intent of the law that an individual's eligibility to receive any public or private assistance be exhausted prior to the expenditure of state and local monies.

The Center's Administrative Offices are located at 52 Amaral Street, East Providence, Rhode Island.

The Center owns the following properties which are being used in the Center's residential program:

347 Main Street, Warren, Rhode Island
680 Hope Street, Bristol, Rhode Island

The Center is governed by a board of directors consisting of 18 elected members.



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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Ms. Kathleen M. Spangler, Acting Director
Department of Mental Health, Retardation and Hospitals
Barry Hall – 1
14 Harrington Road
Cranston, RI 02920-3080

Dear Ms. Spangler:

We have performed the procedures enumerated below, which were agreed to by the Department of Mental Health, Retardation and Hospitals (MHRH) and East Bay Mental Health Center, Inc. (Center), solely to assist the users in evaluating management's assertion about the Center's compliance with the Division of Behavioral Healthcare Service's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers to the matching Grant contracts and with the financial terms and conditions contained within the Community Support, Residential, and Acute Alternatives Services contracts during the fiscal years ended June 30, 2002 and 2001, included in the accompanying Report on Contract Compliance. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

For purposes of this engagement we tested compliance with the above-mentioned specified requirements for determining matchable revenues, allowable costs, accuracy of reported activities and any excess funding on behalf of MHRH. Based on the application of the procedures referred to above, we became aware of revenues exceeding expenses for the fiscal years ended June 30, 2002 and 2001 with the Community Support, Residential and Acute Alternatives Contracts, and a deficiency with the provider's fiscal records and Independent Audit Reports. These matters are discussed in the accompanying "Findings and Recommendations" section of this report.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Ms. Kathleen M. Spangler, Acting Director
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This report is intended solely for the use of MHRH and the Center and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink that reads "Frank J. Collaro Jr." in a cursive script.

Frank J. Collaro, Jr., CFE, CGFM
Acting Chief, Bureau of Audits
January 16, 2004

FJC:pp

**DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
STATEMENT OF REVENUES AND EXPENSES
FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Community Support, Residential, and Acute Alternatives</u>	<u>Adult General Outpatient</u>	<u>Other Programs</u>	<u>Total</u>
<u>Revenues</u>				
MHRH	\$ 535,015	183,646	-	718,661
DCYF	-	-	367,255	367,255
Other Program Revenue	43,616	59,729	-	103,345
Title XIX Medicaid	3,908,639	176,237	1,182,249	5,267,125
Municipalities	-	147,035	140,580	287,615
Fund Raising & Contributions	3,072	32,472	29,576	65,120
Patient Fees	91,368	75,716	32,698	199,782
Resident Fees	88,097	-	-	88,097
Third Party Reimbursements	45,225	341,907	238,528	625,660
Miscellaneous	74,562	7,576	20,985	103,123
	<u>4,789,594</u>	<u>1,024,318</u>	<u>2,011,871</u>	<u>7,825,783</u>
Total Revenues	\$ 4,789,594	1,024,318	2,011,871	7,825,783
<u>Expenses</u>				
Personnel	3,920,046	832,754	1,549,972	6,302,772
Operating	762,199	97,942	309,071	1,169,212
Purchased Equipment	25,816	3,854	8,865	38,535
	<u>4,708,061</u>	<u>934,550</u>	<u>1,867,908</u>	<u>7,510,519</u>
Total Expenses	\$ 4,708,061	934,550	1,867,908	7,510,519
Excess (Deficiency) of Revenues Over Expenses	\$ <u>81,533</u>	<u>89,768</u>	<u>143,963</u>	<u>315,264</u>

See accompanying notes to financial information.

**DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
STATEMENT OF REVENUES AND EXPENSES
FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Community Support, Residential, and Acute Alternatives</u>	<u>Adult General Outpatient</u>	<u>Other Programs</u>	<u>Total</u>
<u>Revenues</u>				
MHRH	\$ 211,004	138,786	-	349,790
DCYF	-	-	305,623	305,623
Other Program Revenue	22,780	26,925	7,780	57,485
Title XIX Medicaid	4,005,872	149,725	933,673	5,089,270
Municipalities	-	145,845	138,430	284,275
Fund Raising & Contributions	5,868	15,850	44,272	65,990
Patient Fees	85,489	63,115	27,987	176,591
Resident Fees	68,147	-	-	68,147
Third Party Reimbursements	72,737	296,861	185,718	555,316
Miscellaneous	101,274	12,679	18,189	132,142
Total Revenues	\$ 4,573,171	849,786	1,661,672	7,084,629
<u>Expenses</u>				
Personnel	3,618,389	771,843	1,336,461	5,726,693
Operating	670,994	78,706	257,202	1,006,902
Purchased Equipment	57,475	7,390	17,242	82,107
Total Expenses	\$ 4,346,858	857,939	1,610,905	6,815,702
Excess (Deficiency) of Revenues Over Expenses	\$ 226,313	(8,153)	50,767	268,927

See accompanying notes to financial information.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
STATEMENT OF OPERATIONS - TITLE XIX PROGRAM
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

	<u>Fiscal Year Ended June 30</u>	
	<u>2002</u>	<u>2001</u>
<u>Beginning Balance</u>	\$ -	-
Revenues Received Designated for Programs	<u>5,267,125</u>	<u>5,089,270</u>
<u>Revenues Applied:</u>		
Community Support and Related Services	3,908,639	4,005,872
Adult General Outpatient Program	176,237	149,725
Other Programs	<u>1,182,249</u>	<u>933,673</u>
Total Applied	<u>5,267,125</u>	<u>5,089,270</u>
<u>Ending Balance</u>	\$ <u>-</u>	<u>-</u>

See accompanying notes to financial information.

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DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
STATE MATCHING PROGRAM
DETERMINATION OF OVER (UNDER) PAYMENT OF STATE MATCHING FUNDS
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

	Fiscal Year Ended June 30	
	<u>2002</u>	<u>2001</u>
<u>State Funds Allocated</u>		
Adult General Outpatient Services	145,286	167,157
Community Support, Residential and Acute Alternatives	<u>145,286</u>	<u>167,157</u>
	<u>290,572</u>	<u>334,314</u>
Matchable Revenues-Fiscal Years Ended June 30, 2000 and 1999	<u>344,523</u>	<u>326,571</u>
<u>Determination of Over (Under) Payment of State Funds:</u>		
State Funds Allocated (Note 2)	290,572	334,314
Deduct lesser of:		
(a) Applicable Percentage of Matchable Revenues	290,572	334,314
(b) State Funds Allocated	290,572	334,314
Maximum Support - Lessor of A or B (Note 3)	<u>290,572</u>	<u>334,314</u>
Over (Under) Payment of State Matching Funds	<u>-</u>	<u>-</u>

See accompanying notes to financial information.

:SP-15d

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

NOTES TO FINANCIAL INFORMATION

Note 1 – Significant Accounting Policies

Basis of Accounting:

The financial information is presented on the accrual basis of accounting which is in compliance with the Division of Behavioral Healthcare Service's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers. Under this basis, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Note 2 – State Funds Allocated – Exhibit D

These amounts represent the total of the matching grants encumbered by the Department of MHRH for the operation of East Bay Mental Health Center, Inc.

Note 3 – Maximum Support – Exhibit D

State funds allocated are subject to the lessor of the following:

- A. 84.34% of the matchable revenue for the fiscal year ended June 30, 2000 and 102.371% of the matchable revenue for the fiscal year ended June 30, 1999.
- B. The maximum state funding as determined above cannot exceed the dollar amount originally allocated for the respective fiscal year.

Note 4 – Other Programs – Exhibits A and B

These amounts represent funding from sources other than MHRH Division of Behavioral Healthcare Service's Mental Health Programs.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
STATE MATCHING PROGRAM
SCHEDULE OF MATCHABLE AND NONMATCHABLE REVENUES
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

		Fiscal Year Ended June 30	
		<u>2002</u>	<u>2001</u>
<u>State of Rhode Island</u>			
Adult General Outpatient Program	\$ 183,646		138,786
Community Support, Residential and Acute Alternatives	<u>535,015</u>		<u>211,004</u>
Total State Funds Allocated		718,661	349,790
<u>Matchable Revenues</u>			
Local Communities	287,615		284,275
Contributions & Fund Raising	<u>49,456</u>		<u>55,413</u>
Total Matchable Revenues (For Fiscal Years Ended June 30, 2004 and 2003)		337,071	339,688
<u>Nonmatchable Revenues</u>			
Title XIX Program	5,267,125		5,089,270
Patient Fees	199,782		176,591
Residential Fees	88,097		68,147
Third Party Reimb.	625,660		555,316
Other Revenues	486,264		373,685
Miscellaneous	<u>103,123</u>		<u>132,142</u>
Total NonMatchable Revenues		<u>6,770,051</u>	<u>6,395,151</u>
Total Revenues (Exhibit A & B, Respectively)	\$	<u><u>7,825,783</u></u>	<u><u>7,084,629</u></u>

:SP-15s

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
EAST BAY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

FINDINGS AND RECOMMENDATIONS

Net Operations

Net operating results for the Center's programs for the fiscal years ended June 30, 2002 and 2001 are summarized below:

Revenues Excess (Deficiency) – Exhibits A and B

<u>Program</u>	<u>2002</u>	<u>2001</u>
Community Support, Residential, And Acute Alternatives	\$ 81,533	\$ 226,313
Adult General Outpatient	89,768	(8,153)
Other Programs	<u>143,963</u>	<u>50,767</u>
Total Revenues Excess	<u>\$315,264</u>	<u>\$ 268,927</u>

Community Support, Residential, and Acute Alternatives

The Community Support, Residential, and Acute Alternatives Contracts had excess revenues over expenses in the amounts of \$81,533 and \$226,313 for the fiscal years ended June 30, 2002 and 2001, respectively (See Exhibits A and B). The Department of MHRH determines the use and disposition of excess revenues.

State Matching Program (Adult General Outpatient)

It was determined that there was no over or under payment of state matching funds during the period audited. (See Exhibit D)

Matchable Revenues were examined for fiscal years ended June 30, 2002 and 2001 and are summarized as follows:

	<u>2002</u>	<u>2001</u>
Local Communities	\$ 287,615	\$ 284,275
Fund-Raising & Donations	<u>49,456</u>	<u>55,413</u>
Total Matchable Revenues	\$ <u>337,071</u>	\$ <u>339,688</u>

Funds received in the fiscal years ended June 30, 2002 and 2001 will be the basis for determining state funds allocated by the Department of MHRH for the subsequent fiscal years ending June 30, 2004 and 2003, respectively.

Revenue Deficiencies

It is our understanding that each contract stands on its own and that any expenses in excess of the contracted amounts be absorbed by the provider.

During the period audited the following Division of Behavioral Healthcare Service's program had a revenue deficiency (Exhibit B):

2001 – Adult General Outpatient Services \$ (8,153)

Financial Records and Independent Audit Reports

The Center has in excess of \$55,000 in assets and liabilities that it administers in its Representative Payee Program. This Program does not appear in the Center's General Ledger nor does it appear in their Independent Audit Reports. Section 40.1-8.5.2 (1) of the Rhode Island General Laws states in part that:

“...an annual financial accounting of a center's financial situation...which includes, for the year reviewed and the immediate preceding year, full financial disclosure of the center's assets, liabilities, fund balances, revenues, and expenditures by program ...”

MHRH Departmental Regulation 7.9.1. states:

“The center's audit shall include the full financial disclosure of all assets, liabilities, fund balances, revenues and expenditures by program.”

Recommendation

1. MHRH officials should monitor and ensure that center fiscal records and Independent Audit Reports include all program activity in accordance with laws and regulations.

Affiliated Corporation

East Bay Realty Corporation was formed August 30, 1996 as a non-profit Realty holding company, which provides services adjunctive to the Center's programs. The same board members serve both the affiliate and the Center. The Corporation owns the following property:

Adams Farley Building
610 Wampanoag Trail
East Providence, Rhode Island

The Adams Farley Building houses the following programs:

Emergency Services
Adult General Outpatient
Children General Outpatient
Children's Intensive